

OFFICE OF ECONOMIC
AND FINANCIAL AFFAIRS

DEPARTMENT OF THE
TREASURY



PUERTO RICO

TAX EXPENDITURE REPORT FOR TAX YEAR 2018

MAYO 2021



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corporations were to move their operations from Puerto Rico, there would be significant dynamic effects felt throughout the economy.

Treasury has decided to include estimates of the cost of tax expenditures for the Incentive Acts in the TEB measured without behavior in the same way as any other tax expenditure. However, the elimination of the Incentive Acts would likely not increase tax revenues, but instead significantly decrease revenues because of the foreign-owned corporations' ability to relocate operations outside of Puerto Rico and the resulting significant dynamic reductions in the economy.

III-C The Non-Additive Nature Of Tax Expenditures

There are no totals shown for tax expenditures in this Report. The cost of a tax expenditure shown in this Report is measured assuming that every other tax expenditure remains unchanged. For example, the cost of the deduction for medical expenses is measured assuming that the charitable donations deduction remains intact. Consider a taxpayer that would remain in the same tax bracket if either the medical deduction or the charitable donations deduction was eliminated but would move into a higher income tax bracket if both were eliminated. In that case, the addition of the two independent estimates would be different (smaller) than an estimate if the tax expenditures were eliminated as a group. In general, the cost of a group of tax expenditures may not correspond to the sum of the cost of each tax expenditure in that group. This is true because tax measures interact with one another. For this reason, totals of tax expenditures are generally inaccurate and are not shown in this report.

III-D Data Sources and Measurement Techniques

Listed below are the data sources used and the techniques used to estimate the cost of tax expenditures for each of the tax regimes included in this Report. There are two major sources of data, tax returns and national accounts data. Tax returns are the best source of information about tax expenditures. However, tax returns are not available for tax years 2017 and 2018 for each of the tax regimes in this Report. For example, the latest regular corporate tax returns that are available are for tax year 2016. When tax returns are not available national accounts data is generally used to extrapolate the latest year of tax returns. When national accounts data is used as an extrapolator the cost estimates will be revised as tax returns become available. National accounts data itself is on a revision cycle so that it is possible that the national accounts will be revised between the publication of two PRTERs while tax returns are still not available; these national accounts revisions may also give rise to revisions of the cost of tax expenditures appearing in this Report. Cost estimates of tax expenditures that appear in PRTER17 that have been revised for inclusion in this Report appear with a superscript "r." alongside the estimate.

III-D.(a) Individual Income Taxes

Data – Individual income tax returns.

Technique – A microsimulation model run against the population of individual tax returns.